

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Tuesday, July 8, 2008 – 8:00 a.m. – Room C445 State Capitol

Members Present:

Sen. Wayne L. Niederhauser, Senate Chair
Rep. John Dougall, House Chair
Sen. Curtis S. Bramble
Sen. Mike Dmitrich
Sen. Brent H. Goodfellow
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Douglas C. Aagard
Rep. Rebecca Chavez-Houck
Rep. Tim M. Cosgrove
Rep. Julie Fisher
Rep. Craig A. Frank
Rep. Gage Froerer

Rep. Wayne A. Harper
Rep. Fred R. Hunsaker
Rep. Rosalind J. McGee
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Paul Ray
Rep. Aaron Tilton

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Committee Business

Chair Niederhauser called the meeting to order at 8:13 a.m.

MOTION: Rep. Dougall moved to approve the minutes of the June 18, 2008 meeting. The motion passed unanimously with Rep. Frank and Rep. Tilton absent for the vote.

2. Consumption Taxes and the Fair Tax

Mr. Howe distributed and discussed "Overview of Consumption Taxes." He discussed the benefits and disadvantages of a tax on household consumption. He also explained how a consumption tax could be imposed and the economic reasons for implementing a consumption tax. He noted that no state currently imposes a broad based tax on all consumption by households.

Mr. Thomas Wright, Fairtax.org, explained that Fairtax.org is a nonpartisan organization that promotes changing how taxes are collected. He supports a tax that is transparent and simple instead of the current federal tax system that imposes a heavy compliance and administrative burden. Mr. Wright discussed the history of fairtax.org. He explained that under this proposal, a federal sales tax would replace the federal individual income tax, corporate income tax, payroll tax, and several other federal taxes. These taxes would be replaced by a federal sales tax of 23 percent on nearly all goods and services consumed by households. He further explained that a consumption tax is a retail tax only and that purchases for business or agriculture are not taxed. He said that there are 72 cosponsors of federal legislation to replace the current federal tax system with a federal sales tax. Mr. Wright discussed "Changing Texas' Tax Structure: A FairTax for Texas," which was mailed prior to the meeting, and a book titled *The FairTax Book: Saying Goodbye to the Income Tax and the IRS*.

Sen. Stephenson spoke in support of consumption taxes and said that it is offensive to be forced to reveal personal information to government every year in order to pay individual income taxes.

Rep. Fisher asked what would prevent Congress from imposing an individual income tax in addition to a federal sales tax. Mr. Wright replied that his organization also supports repealing the 16th amendment to the United States Constitution that authorizes Congress to impose an individual income tax.

President Valentine asked about the incidence of a consumption tax. Mr. Wright replied that there will be a change in tax incidence but that there would be no federal sales tax on consumption below the federal poverty level.

Rep. Chavez-Houck asked about the effects on charitable donations. Mr. Wright replied that studies show that a repeal of the federal individual income tax would have little effect on the level of charitable giving.

3. Property Tax Study -- State and Local Administration of the Assessment of Locally Assessed Property

Mr. Howe distributed and discussed "County Assessor Staffing Levels - Real Property." He explained that the document shows how many appraisers and other employees are employed by each county assessor and the number of parcels that each county is responsible to assess.

Mr. Art Partridge, Utah Assessor's Association and Washington County Assessor, distributed and discussed "Assessment in Utah." He discussed four main duties of county assessors and explained how the fair market value of property is determined.

Sen. Niederhauser noted that one of the duties of a county assessor is to annually update all property values. He asked if this is in fact being accomplished. Mr. Partridge replied that while there have been some inconsistencies in the past, most county assessors now annually update all property values.

Rep. Ray asked about the effects of the nondisclosure of real estate sales prices in Utah. Mr. Partridge replied that nondisclosure hinders the work of county assessors and that access to more sales data would improve the accuracy of assessments.

Mr. Lee Gardner, Salt Lake County Assessor, answered questions about Salt Lake County's valuation area sales and assessments.

Mr. Partridge said that there are at least five reasons why an individual taxpayer's property taxes may increase. These include: (1) an increase in a tax rate due to the reduction of value of a centrally assessed taxpayer within the taxing entity; (2) nonuniform increases or decreases of assessed value within a taxing entity; (3) taxpayer approval of a voted leeway levy; (4) taxpayer approval of a bond levy; or (5) a taxing entity, after meeting the notice and hearing requirements of truth in taxation, imposing a property tax rate higher than the certified property tax rate.

Mr. Kris Poulsen, Utah County Assessor, explained that because of California's Proposition 13, it is possible for a property owner in California to have additions and upgrades on their property that are valued at different levels because they were assessed in different years.

Rep. Dougall said that the property tax is not equitable because it is not related to ability to pay.

Rep. Froerer asked to what extent foreclosure sales are considered in determining assessed value. He argued that foreclosure sales prices should be considered as the fair market value for these sales. Mr. Partridge replied that all foreclosure sales may not meet the definition of a fair market transaction but that foreclosure sales should be considered if they are a substantial portion of all sales that occur within a county.

Mr. Bert Hulet, representing Citizens for Tax Fairness, said a major cause of property tax unfairness is the rapid inflation value of land. He suggested implementing acquisition based value assessments, limiting the increase allowed in assessed values each year, and reducing the sensitivity of the assessed value to land value.

4. Recess

The Committee recessed at 10:55 a.m. and reconvened at 11:11 a.m.

The Committee continued discussion of Agenda Item #3.

Mr. Denny Lytle, Director, Property Tax Division, Utah State Tax Commission (Tax Commission), distributed and discussed "Sales Ratios Study." He discussed uniformity standards for assessing property in Utah and showed a ten-year history of the number of issued corrective action orders.

Mr. Gerald Osborne, Property Tax Division, Tax Commission, discussed oversight and auditing of property assessments by county assessors. He said that his division conducts detailed reviews of assessment practices including on-site audits of randomly selected parcels.

Sen. Niederhauser said that while some counties employ computer assisted mass appraisal systems, these systems are only as accurate as the physical property characteristics contained in the database. He questioned whether the level of oversight of county assessors by the Tax Commission is adequate. Mr. Lytle said that there is a legitimate concern that past levels of oversight for some counties were not adequate. He said that his division's expanded auditing functions should improve the accuracy of assessments. He also said that access to more sales data would improve assessment accuracy.

Rep. Dougall wondered if county assessors are not being asked to do an impossible task in having to determine fair market value on a wide scale. Mr. Osborne noted that uniformity in assessment is also required under the Utah Constitution.

Sen. Stephenson asked why a factoring order from the Tax Commission would ever be needed if all counties use a computer assisted mass appraisal system. Mr. Lytle replied that not all counties have sufficient sales data to utilize such a system.

Sen. Niederhauser said that the Tax Commission needs to improve its oversight of the state's property tax system including ensuring that characteristic property information is kept current.

Mr. Tom Leech, Salt Lake County Assessor's Office, answered committee questions about the coefficient of dispersion.

5. Assessing and Collecting Levy

Due to lack of time, this item was not discussed.

6. Perspectives on the Utah Residential Property Market, Indexed Acquisition Based Value, and Improving Taxpayer Certainty

Mr. James Wood, Director, Bureau of Economic and Business Research, David Eccles School of Business, University of Utah, distributed and discussed "Presentation to Revenue and Taxation Interim Committee: Changes in Housing Prices in Utah." He gave an overview of the change in sales prices of housing in Utah and discussed the percent change in the average sales price of homes in Salt Lake County from 1955 to the present.

Mr. Wood said that Utah's housing market is unique compared to the rest of the nation. Home price appreciation is either near the bottom or the top of national averages. He said that consistent average housing price declines in Salt Lake County are rare. He said that today's housing market is volatile and that he expects housing demand to remain soft in the near future.

Rep. Cosgrove asked what can be done to improve taxpayer certainty under the property tax system. Mr. Wood said that Utah's housing market is unique in that it experiences periodic surges in fair market value. He said that he does not expect housing prices to increase substantially during the next few years.

Sen. Niederhauser thanked Mr. Wood for his presentation.

7. Other Items / Adjourn

MOTION: Rep. Froerer moved to adjourn the meeting. The motion passed unanimously with Sen. Bramble, Sen. Dmitrich, Sen. Goodfellow, Pres. Valentine, Rep. Frank, Rep. Hunsaker, Rep. Newbold, Rep. Ray, and Rep. Tilton absent for the vote.

Chair Niederhauser adjourned the meeting at 12:31 p.m.